

# China in the World Trade Organization

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Thank you very much. I am pleased to be here with the Conference, and to see Mayor Webb and Mayor Pulido of Santa Ana, who joined us on the U.S. Delegation to the WTO Ministerial, along with many other friends. Let me also recognize Mayor Oberndorf of Virginia Beach, Chair of the International Affairs Committee and one of America's long-standing leaders on trade policy. Their work on our trade advisory committees, together with that of many other mayors, is invaluable, helping to ensure that cities and towns have a voice as we make policy decisions and move our negotiations ahead.

The Conference recently commissioned a major report on America's metro economies, which finds that cities – as centers both of high-tech production and of transport – have a special advantage in reaching international markets. Thus trade policy is especially important for urban areas. And I am here to speak about a case in point, asking your support for one of the most important trade policy goals in many years: China's accession to the World Trade Organization, together with support for permanent Normal Trade Relations for China.

## ONE-WAY CONCESSIONS

Let me begin with a very brief description of the WTO itself and the steps China will take to join it. I will then offer you some thoughts on the implications of the WTO accession for China; America's trade interests in China; and finally our broader strategic goals.

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT; which in turn dates back to the years just after the Second World War. Its creation was in part a measure to stimulate a return to growth after the war; but it also reflected deeper and broader goals. The postwar leaders who created it – Truman, Churchill, the democratic leaders of Europe – did so in the light of the experience of the 1930s, when the Smoot-Hawley Act in America and similar trade restrictions overseas had deepened the Depression and intensified political tensions.

Their vision was that to open world markets and advance the rule of law would help not only to promote growth and raise living standards, but to strengthen peace. Since then, their successors have added 112 new members to the 23 founding nations: first Germany and Japan, then much of the developing world, and most recently the series of countries in Europe and Asia once governed through communist central planning. Thus, as we abandoned the closed markets

of the Depression era, we helped to foster a fifty-year economic boom, during which the world economy grew six-fold, per capita income nearly tripled, and hundreds of millions of families escaped from poverty. And still more important, we have strengthened peace, by giving nations a greater stake in stability and prosperity beyond their borders.

China's commitment to join the WTO will bring the world's largest country, and its fastest-growing trading economy, into this network of opening markets under the rule of law. In the most basic and literal sense, China's WTO accession will secure a broad-ranging, comprehensive series of one-way trade concessions on China's part. In the bilateral WTO accession agreement we reached in November, China agreed to grant the United States substantially greater market access across virtually all sectors – goods, services and agriculture – and stronger guarantees of fair trade. We must only agree to maintain the market access policies we *already* apply to China, and have applied for over twenty years, by making China's current Normal Trade Relations status permanent.

## THE WTO ACCESSION AND CHINESE REFORM

But more fundamentally, however, China's WTO accession represents a profound and historic shift of attitudes within China itself. Its decision to make these trade commitments reflects a policy judgment – still not universally popular within China's government – that the best path to security and prosperity is market liberalization and an opening to the world.

As it joins the WTO, China will sharply reduce trade barriers such as tariffs at the border. It will for the first time since the 1940s permit both foreigners and Chinese businesses to import and export freely from China. It will reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services. It will enable, again for the first time since the 1940s, foreign businesses to securely participate in information industries such as telecommunications and the Internet. And it will allow the decisions of officials and ministries to be tested by impartial dispute panels when necessary.

Taken together, such measures represent a remarkable victory for economic reformers within China. They will help to reform policies dating to the earliest years of the communist era: absolute government control over economic contacts with foreigners, nationalization of major industries, and destruction of private local commerce within China. They give the Chinese people more access to information and more contact with the democratic world. They weaken the ability of hardliners within the Chinese government to isolate the Chinese public from outside influences and ideas. Altogether, they reflect a judgment that China's achievement of prosperity, security and international respect will rest not upon static notions of nationalism, state power and state control; but rather upon greater economic freedom, engagement with the world outside and ultimately development of the rule of law.

The WTO accession, therefore, has potential beyond the world of economics and trade. It can serve as a foundation for the rule of law within China; and it can serve as a precedent for

China's willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights – Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison – see the WTO accession as China's most important step toward reform in the past two decades. And it is why our support for WTO accession reflects a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## THE WTO ACCESSION AND AMERICAN TRADE INTERESTS

The results we have achieved, of course, reflect these latter points as well. While China's principal concern is the potential of WTO accession to create jobs and foster sustainable long-term growth through economic reform, ours is also the commercially meaningful commitments that will help Americans export to China and support jobs at home. And in this regard the agreement meets the high standards President Clinton set years ago, when he directed us to seek WTO entry for China.

### 1. Overview

First, our bilateral agreement is comprehensive. It opens markets in agriculture, industrial goods and services; it addresses unfair trade practices including quotas and other non-tariff measures, the application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other issues as well. It addresses tariffs and other barriers at the border, limits on the right to import products into China and distribute them within China, intellectual property protection, and restrictions on services. To offer some specific examples:

- The industrial tariffs your factory workers face in China will fall from an average of 25% in 1997 to an average of 9.4% by 2005; in information technology, tariffs on products such as computers, semiconductors, and all Internet related equipment will fall from an average of 13% to zero by 2005.
- In agriculture, on U.S. priority products such as beef, citrus and dairy, tariffs will drop from an average of 31% to 14% in January 2004. China will also expand access for bulk agricultural products like wheat, corn, cotton, soybeans and others; permit for the first time private trade in these products; and eliminate export subsidies.
- In services, the agreement will open the market for distribution, insurance, express delivery, telecommunications, banking, law, accounting, engineering, construction, environmental services, and other industries.
- In all, it requires China to reduce its trade barriers to levels comparable to those of major trade partners, including a number of fully developed industrial countries.

- And the agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy by including some features unique to this particular accession. It addresses state trading; it bans forced technology transfer; it eliminates investment policies intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. And it provides protections for Americans against import surges from China and from abusive export practices like dumping.

Second, it is fully enforceable. The commitments China has made in all areas are specific, measurable, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms including periodic multilateral review of China's adherence to its commitments.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

## 2. Case Study: The Auto Industry

Let me now give you an example of these features in practice. As Mayor Archer knows well, it is now virtually impossible to export cars to China. Typically we export about 600 cars a year to China, many of them used. This is less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. And this is not because China has few cars – Beijing, Shanghai, Guangzhou and other major cities have some of the heaviest traffic in the world. It is because trade barriers which include restrictions at the border, old policy legacies, and more recent industrial policies amount to a virtual ban on auto imports. And in this agreement we take up all of them.

- We reduce barriers at the border: cutting tariffs from 100% today to 25% by 2006; forbid discriminatory value-added taxes; and raise the current prohibitive quota to \$6 billion worth of autos and then eliminate it entirely within five years.
- We commit China to open its distribution markets and grant trading rights, ensuring that auto exporters from the U.S. can move their products within China and import them freely to the areas of greatest demand.
- We open up the services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.
- We abolish industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, abolish local purchase requirements, and forced technology transfer.

- We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a twelve-year “product-specific safeguard” available to all industries -- in this case, a guarantee that if auto imports from China should rise so sharply as to damage domestic firms, we can impose emergency limits; and a guarantee we will be able to employ special “non-market economy” methods of calculating and counteracting dumping for fifteen years.
- And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American laws and the WTO’s dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although the specific features differ, in every industry of significant concern to the U.S. economy. We cover –

- High-tech industries such as semiconductors, software, chemicals and computers.
- Traditional manufacturing, from steel and aluminum to agricultural equipment, wood products, and home appliances.
- Artistic fields like books, music and film, as well as other copyright industries like software and video games.
- American farm and ranch products, from wheat to specialty agricultural products to citrus, beef, cotton, soybeans and rice.
- Services industries, banking, to insurance, express delivery, accounting, law, engineering, environmental, telecommunications, the Internet and other fields.

### 3. The Work Ahead

China has yet to complete bilateral market access agreements, like the one we reached in November, with a number of other WTO members: Europe, India, Mexico and others. And it must complete a multilateral negotiation at the WTO which principally cover commitments regarding a range of WTO rules including on subsidies, technical standards, a mechanism to review implementation, and many other issues. All of this should serve to strengthen the already very strong accession agreement we have negotiated.

However, we have an obligation as well. The United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China’s commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR simply reflects the tariff

status we have given China since our normalization of diplomatic relations in 1979; which Congress has reviewed every year since then and found to be in our fundamental national interest; and which every country in the world, but for a very few such as North Korea, Afghanistan and Serbia already have. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR. If Congress were to refuse to grant permanent NTR, our Asian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

## THE WTO ACCESSION AND THE FUTURE US-CHINA RELATIONSHIP

From the perspective of trade policy, this choice is absolutely clear. China offers a set of one-way trade concessions; in return, we are asked only to confirm the normal trade status we already grant to China.

But trade, of course, is only one element in our economic relationship with China; and economics is only one of many major issues in the totality of our relationship with the world's largest country. And thus, the WTO accession also asks us to think about the future in terms of American security and strategy for the years and decades ahead of us.

Our relationship with China today is free neither of deep-seated policy disagreements, nor moments of tension. This is perhaps natural: we are both great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship poses profound questions of relevance to the future peace and stability of a vast section of the earth:

“Eagles do not flock together like birds of lesser wing;  
thus it has been since ancient times.  
How is the round to fit with the square?  
How can different ways of life be reconciled?”

We should not imagine that a trade agreement will cure these areas of disagreement. Rather, as the President has said, we must act on them with candor and a firm assertion of our interests and values.

But as we do so, we also must recognize how important a stable and peaceful relationship with China is -- for the world, for the Chinese, and for us. And thus we have an equally fundamental responsibility to find and act upon areas in which we share interests and benefits.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it as well in the maintenance of peace on the Korean peninsula; in the search for stability in the Taiwan Strait; in the environmental problems of the Asia-Pacific region. And we have seen it in trade policy for a quarter century.

American trade initiatives in China have stretched from the end of the trade embargo in 1972 through our Commercial Agreement and mutual grants of MFN status (now Normal Trade Relations) in 1979 and 1980; through the renewal of NTR for the past 20 years; and through the market access, textile and intellectual property rights agreements of the 1990s. Each step has had a foundation in concrete American economic interests; but each has also helped to promote reform and the rule of law within China, integrate China in the Pacific economy, and thus strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And WTO accession for China will be the most significant step in this process for many years.

## CONCLUSION

That is the fundamental meaning of this WTO accession; and if we approach it in this spirit, we can see how extraordinary are the possibilities it opens up.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to cities and towns throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth for Americans.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law, and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; that is why I am before you today. And it is why I ask for your support and your help as we bring this historic agreement to Congress, and seek on its basis permanent normal trade relations with China.